



# ASRS REPORT

## ARIZONA STATE RETIREMENT SYSTEM

Paul Matson, Director  
3300 North Central Avenue, Phoenix, Arizona 85012  
[www.azasrs.gov](http://www.azasrs.gov)

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*February 15, 2008*

This report provides a briefing of news and notices important to our members, retirees and employer partners, as well as other interested parties. It is produced by the ASRS on a periodic basis and posted to the ASRS website. If you would like to receive an email notice when the next issue is posted, and you are not already on our email list, please contact us at [weeklyreport@azasrs.gov](mailto:weeklyreport@azasrs.gov), and provide your name, email address, telephone number and title and organization, if applicable.

## ASRS News

### ASRS releases 54<sup>th</sup> Annual Report

The Arizona State Retirement System is pleased to release its Comprehensive Annual Financial Report for the fiscal year 2006-07. The 134-page report provides detailed information on finances, investments, actuarial data and general statistics of the agency. The report shows for the first time that the ASRS reached a membership total of more than a half-million.

Outside auditors charged with reviewing the report confirmed that the agency is operating efficiently and up to industry standards, as no findings or recommendations to the ASRS regarding its internal controls, accounting, administrative or operating processes were warranted, they noted.

The report meets the standards and requirements for reporting as set forth by the Government Finance Officers Association of the United States and Canada. ASRS annual reports have received the GFOA Certificate of Achievement for Excellence in Financial Reporting for the past 18 years. This year's report will again be submitted for the GFOA's Certificate of Achievement.

Statistics in the report reflect the year ended June 30, 2007. They show:

- ASRS membership totaled a record 523,012, including 83,603 retirees and survivor beneficiaries who are receiving lifelong monthly benefits.
- The average monthly benefit paid was \$1,584.
- The ASRS paid out more than \$1.8 billion in benefits to retirees and beneficiaries.
- The ASRS portfolio totaled more than \$28 billion.
- The rate of return on the ASRS total fund was 17.8 percent, well above the assumed rate of return of 8 percent.

In keeping with the State of Arizona's emphasis on electronic business and cost savings on printing, a limited number of the books were printed.

To view the entire report, please visit the ASRS website at [www.azasrs.gov](http://www.azasrs.gov).

## Legislative News

With the 48<sup>th</sup> Legislature-Second Regular Session now underway, the Arizona State Retirement System is again highlighting retirement-related legislation that is under consideration.

There are six bills that may have a direct impact on ASRS membership, plus a number of additional bills that affect retirement issues. You can see a summary of the bills and track their progress through the legislative process in the ASRS Bill Tracker. We will update this document each week and make it available for viewing on our website, [www.azasrs.gov](http://www.azasrs.gov).

Here are highlights of one bill that would have the greatest impact on ASRS members:

**House Bill 2062.** This bill, sponsored by Representative Marian McClure, would change the benefit formula and one of three criteria for reaching normal retirement. If passed into law, these changes would apply only to ASRS members hired on or after July 1, 2009. Here's a summary of the bill as introduced:

- Modifies the Average Monthly Compensation used in a retiring member's retirement benefit calculation from the average of the highest 36 months in the last 120 months to the average of the highest 60 months in the last 120 months for a member whose membership commences on or after July 1, 2009.
- Modifies one of the Normal Retirement Date definitions from 80 to 85 points (age + years of service) for a member whose membership commences on or after July 1, 2009.
- Limits a member with five or more years of service to receive 25% of employer contributions upon termination of employment (by other than death or disability) for a member whose membership commences on or after July 1, 2009.
- Clarifies that a member who purchases previously forfeited service credit is subject to the benefit structure and duties in place when the person again becomes a member.
- Requires the ASRS to recover overpaid money by reducing a benefit owed to any member, beneficiary, or alternate payee.

Implementing these changes is expected to save the ASRS fund more than \$1 billion over time, and mitigate the pressure to raise contribution rates for all members and employer partners.

Modifying the Average Monthly Compensation method – from using a 36-month calculation to employing a 60-month calculation – is being proposed primarily to limit “salary spiking,” the opportunity for some individuals to artificially inflate their salary as they approach retirement, thereby leading to an artificially inflated lifetime benefit.

Modifying the “rule of 80” to the “rule of 85” is being proposed to more accurately reflect increased longevity, and longer lifetime benefits younger workers can expect to receive in retirement.

And, modifying the percentage of employer-paid contributions to members who leave employment and withdraw their account balances is expected to produce substantial savings while bringing the ASRS inline with similar practices of other retirement plans. Currently, members who terminate and withdraw their account balance are entitled up to 100 percent of the employer contributions if they have 10 or more years of service.

Again, these changes if passed into law would affect only ASRS members who are hired on or after July 1, 2009.

Please refer to the ASRS Bill Tracker for summaries of other proposed legislation. We'll highlight some of those bills in future issues of this report as the legislative process continues.

## New law affects retirement options

An amendment to Arizona State Statutes governing optional forms of retirement passed in 2006 will take effect July 1, 2008. Under the new law, members who retire on or after July 1, 2008 will have a one-time opportunity to rescind the joint-and-survivor or period-certain annuity option and change to a straight-life annuity option if the originally-named annuitant dies, ceases to be a contingent annuitant under terms of a divorce, or automatically at the end of the selected period-certain term.

The practice of “popping up” and “popping down” between annuity options allowed members to receive a higher benefit through the straight-life annuity, and then extend benefits to a beneficiary at any time by “popping down.” The unrestricted practice causes an unfunded liability to the overall ASRS fund, which had to be paid for through elevated contributions rates by all members.

Implementing the new law is calculated to prevent a potential \$29 million in increased employee contributions over time.

Members who retire on or before June 30, 2008 are not affected by the new law. The effective date of the 2006 legislation, now contained in A.R.S. § 38-760, was delayed while the ASRS awaited a review from the Internal Revenue Service.

Members contemplating retirement, and especially those in the process of applying for retirement benefits, are strongly urged to speak with an ASRS Member Services representative prior to filing their final retirement applications.

## **Educational meetings offered to inform, assist members**

The Member Services Division of the ASRS conducts educational meetings available to all members. Whether you're newly hired and want to learn about the benefits available to you, or you're ready to retire and want assistance filling out your paperwork and making annuity selections, the ASRS has a meeting for you.

### **Know Your Benefits**

This meeting is especially beneficial to new members. You'll learn about the many benefits of belonging to the Arizona State Retirement System, including a history and overview of the ASRS, how your pension is calculated and how to maximize your future benefit, member responsibilities, disability and survivor benefits, options should you leave ASRS employment, and more. Also covered will be the Service Purchase benefit, in which a member may purchase, under certain circumstances, time they worked under other qualified employer plans.

### **Getting Ready to Retire**

This meeting is vital for members who are planning to retire within a year. You'll learn about your pension benefit and how it's calculated, options for retiree health insurance and other benefits, return to work options and more. Members who register for this meeting will receive a personal benefit estimate and assistance in filing out the proper paperwork.

Visit our website and click on the “Calendars” section to see a full listing of meetings taking place in Phoenix, Tucson and throughout the state at various locations. Reservations are required and can be made by calling our Member Services Advisory Center at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or (800) 621-3778 outside Phoenix and Tucson.

Here's where we'll be in coming weeks!

#### **Casa Grande**

- **February 25** - Casa Grande Elementary District Conference Room, 300 W McMurray Blvd.  
Getting Ready to Retire, 4:00 – 7:30 p.m.
- **February 26** - Grande Elementary District Conference Room, 300 W McMurray Blvd.  
Know Your Benefits, 9:00 a.m. – 12:00 p.m.

#### **Globe**

- **February 26** - City of Globe Council Chambers, 150 N Pine Street  
Getting Ready to Retire, 4:00 – 7:30 p.m.

#### **Apache Junction**

- **February 27** – Apache Junction Unified District Board Room, 1575 W Southern  
Know Your Benefits, 10:00 a.m. – 1:00 p.m.  
Getting Ready to Retire, 4:00 – 7:30 p.m.

## **ASRS Board & Committee Meetings**

### **ASRS Board of Trustees**

Friday, March 21, 2008, 8:30 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 10<sup>th</sup> floor Board Room.

### **Operations Committee**

Thursday, February 28, 2008, 10:30 a.m. - ASRS Phoenix office, 3300 N. Central Ave., 14<sup>th</sup> floor.

### **External Affairs Committee**

Friday, March 7, 2008, 10 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 14<sup>th</sup> floor.

### **Investment Committee**

Wednesday, April 2, 2008, 3:30 p.m. – ASRS Phoenix office, 3300 N. Central Ave., 14<sup>th</sup> floor.

*Note: All Board & Committee meetings are open to the public and your attendance is encouraged. Schedules, agendas and minutes of meetings are posted on our website and are available at our Phoenix and Tucson offices.*